Top 5 Learnings From Jeff Bezos Letters To Amazon Shareholders

By Sam Ovens

If there's anybody in the world you should learn from, Jeff Bezos should be one of them. Bezos has grown Amazon to be the most valuable company in the world and from that he's also the richest man in the world. Success leaves clues -- And since Amazon is a public company, Bezos has left a carefully articulated set of clues that dates back to Amazons inception -- Amazon's annual letters to shareholders.

Every year Bezos writes a 1-3 page letter to his shareholders where he reports on the progress their making at Amazon as well as his predictions for the future. I compiled all of the letters from 1997-2017 for you into one easy-to-read pdf which you can download here for free.

Below is a summary of five things that I took away from the letters:

1. **It's all about the long-term**

   Bezos constantly stresses the importance of long-term thinking. Most people make decisions based on instant gratification, things like Facebook likes, praise from their friends or enjoyment going to a party and getting drunk. These activities make you feel good in the short term but they harm you in the long-term.

   Bezos makes all of his decisions based on the 2nd, 3rd, 4th and 5th order consequences of his immediate decisions and actions today -- he's like a grandmaster chess player who's making moves now that nobody can understand because the pay off and grand plan comes together 10 years from now.

   There was a study done at Stanford called the "Marshmallow Experiment". They gave children the option to have one marshmallow now -- or -- delay getting a marshmallow for a period of time (around 45 mins) and then get two marshmallows instead. The children who chose the delayed option were tracked for the remainder of their lives and they performed better in all aspects of life from health and fitness, academic achievements and financial performance.

   How can you improve from this? Everyday in business and life, you have to make choices, your life will ultimately be the sum total of these everyday choices, so think to yourself -- What's best for me long term? Don't be shortsighted with instant gratification, think 2, 3, 4 moves ahead.

2. **Customer obsession**

   There's many ways to center a company: Competitor focused, personally focused, tech

focused, and more. Most businesses are competitor focused and their eyes are fixated on their competition. Bezos runs Amazon with a laser-like focus on customers. When decisions are made at Amazon it's easy to find an answer because they use a universal principle of customer obsession -- they decide based on what's best for the customer.

Most people run their businesses with principles all about themselves, they care more about themselves and their satisfaction and profit than they do their customers experience. Bezos is unlike any other businessman I have seen, he doesn't take profit margins, personal gains or profitability into consideration when making decisions -- he decides based on what's best for the customer and that's the end of discussion.

You might think -- How can you run a business without caring about profit? Obviously taking profit into consideration is important because you need to survive. Bezos doesn't give away things for free, he's not running a charity, but he takes customer obsession as far as he possibly can while still being financially responsible and ensuring survival. This is a smart long term play because Bezos knows that in the end, if you treat customers well -- they will treat you well in return. Bezos is now collecting dividends for his loyal customer obsession which has been invested in since Amazon's inception.

How can you improve from this? When running your business it's important to have "guiding principles", some basic rules that you live by and treat as your companies "founding religion". This makes decision making easy because you know the best way to look at things, you simply chose the option most aligned to your founding principles. When you choose your founding principles understand that in the long-term, nothing beats true customer obsession. You may sacrifice some profit margin and personal income in the short-term, but long term you will be king.

3. **Benjamin Graham worldview**

There's lots of different ways to measure the performance of a business, there's growth, revenue, profit, cashflow and more. When it comes to measuring the performance of Amazon -- Bezos takes a radically different view of things. Instead of focusing on profit or short term market reactions -- Bezos focuses on "long-term future cash flows".

This means Bezos is always thinking about what's going to produce the most cashflow for Amazon 10 years into the future instead of thinking about what's going to make the most profit this quarter or financial year. This is something Bezos learned from Benjamin Graham's book "The Intelligent Investor" (highly recommended reading).

Most business owners run their businesses with the "annual profit" measuring stick -- they care about how much profit their business makes this year. The upside of this is that you will make more profit this year and impress your shareholders this year. The downside is that taking excessive profits now can hurt profits in the future.

In the early days of Amazon, for years the stock market hated them, they couldn't understand how a business was worth anything when it didn't make a profit. Bezos held out during those early years and waited for his long-term strategy to flourish -- now it has and Amazon is the most valuable company on planet earth.

How can you improve from this? Instead of thinking about personal profits in the short-term, think about long-term future cash flows. Think to yourself, what's the best decision I can make today so that I make the most money 10 years from now? It's important to think short-term to ensure survival, but once survival is covered -- play the long-game to win big.

4. **Radical cult-like culture**

All great companies have a strong culture that's unique and helps differentiate them from the competition. When it comes to culture at Amazon -- Bezos lays it on thick. Many employees and outsiders have referred to Amazon's culture as "cult-like" and "radical". Some of Amazon's principles and memo's have been referred to as "scripture".

I've noticed this trend among all great companies -- people refer to their cultures as "cults" and their leaders as "gods", "gurus" and "kings". People referred to Steve Jobs as a guru like figure and Apple as a cult, they said the same about Ray Dalio from Bridgewater too. Some people might think this is wrong -- history shows its right.

Developing a cult-like culture at your company is essential if you want to attract the right people and motivate them to act as a whole instead of individuals. Culture allows people to give-up their individual egos and adopt a hive-mind consciousness where they think, work and act as one. Bezos was able to instill a radical cult-like culture at Amazon since day one and it's still strong today.

Amazon's culture is one of workaholics, people work 7 days a week and 12 hours a day and when somebody doesn't -- they're cut. They're frugal with money, even the executive team has to fly economy class or pay for business out of their own pocket. They don't think conventionally, they're encouraged to constantly reject the status-quo and try new things without the fear of failure or embarrassment. They have a shared hatred of meetings and "communication", they focus on achieving the goal and no meeting is to be held without somebody writing a 7 page press release stating how this would benefit customers -- only once that's complete is a meeting to be held.

How can you improve from this? When starting and growing your business, ask yourself "What are our founding principles?" Constantly step back and observe the business you've grown to see how the culture is morphing and taking shape, if it's evolving along a trajectory that you see as troublesome or boring -- step in an make the necessary

changes so that it doesn't go too far. Culture is extremely important because you can't be there to observe all your employees all hours of the day -- you need to trust them to make the right decisions themselves -- and that only comes with a great culture.

5. **Darwinian reality of surviving in nature**

   In nature, if some bugs have brown shells and others have green shells, and a bird that eats bugs has a preference for green shells -- the bird will eat the green bugs and they will eventually become extinct while the brown bugs live on. This is what Charles Darwin observed in nature when he came up with his theory of Evolution and Natural Selection. Natural selection is the process whereby organisms better adapted to their environment tend to survive and produce more offspring.

   Why am I talking about bugs? Well Darwin's theory applies directly to businesses too! Businesses compete against each other for resources within ecosystems. They must adapt and change so that they can survive in the changing environment and it they can't -- they will be wiped and extinct. This is what Darwin calls "Survival of the fittest". Eg. video stores and cd stores becoming extinct when online streaming became available. This change in the environment caused an apocalypse where the businesses who failed to adapt to change got wiped out and a new species of business reigned supreme.

   It's clear that Bezos has a solid understanding for Darwin's theory and he takes it to a level that I have never seen before in business. Most businesses compete for resources within an ecosystem against other businesses -- Bezos makes every single team at Amazon compete against each other for resources -- He created an ecosystem within an ecosystem. By doing this Bezos makes all teams and all people at Amazon compete against each other without being shielded from the outside world like corporates do. If a team at Amazon can't survive, it gets cut. If a team excels, it gets more resources from the teams that got cut. By doing this Bezos has been able to accelerator the time-clock of innovation at Amazon so that its constantly ahead of the market because the internal ecosystem is far more challenging than the actual ecosystem itself.

   How can you improve from this? First of all, if you're not familiar with Darwin's theory of Evolution -- I strongly recommend you dive into it head first. All of Darwin's observations about nature are still true today and they draw parallels in the world of business too. In life and business you want to constantly think "How is the market changing?", "What traits are favored for survival in the ecosystem now and what traits are likely to be favored for survival in the future?" By constantly thinking like this, you will notice when your business needs to adapt to change and when you get good at it -- you will see what's coming ahead of time -- allowing you to constantly be ahead of the curve.

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